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Function No. 50000 —Payroll Accounting	TOPIC	WORKERS' COMPENSATION
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Overview

Introduction This topic provides guidelines for making workers' compensation payments to eligible non-VSDP employees. Employees who are enrolled in the Virginia Sickness and Disability Program (VSDP) and have workers' compensation claims receive different benefits than non-participants in VSDP. VSDP workers' compensation payment processing guidelines are in CAPP Topic 50525, *Virginia Sickness and Disability Program*. **This topic governs only non-VSDP workers' compensation processing.**

Workers' Compensation Awards Employees injured during the course of employment are eligible for benefits under Virginia's Workers' Compensation Act if the injury is deemed compensable. Claims for work-related injuries are in a "pending" status until deemed "compensable" or "non-compensable" by WCP. Payments to employees for such awards are generally paid by the employing agency for at least the first 92 days following the injury. Agencies are subsequently reimbursed by the Department of Human Resource Management's Workers' Compensation Program (WCP).

WCP is responsible for administering the state workers' compensation program under Title 65.2 of the *Code of Virginia*. WCP initially identifies employees eligible to receive workers' compensation benefits and handles all related payments to physicians, agencies and employees (if applicable). The *Workers' Compensation Claim Procedure Manual* provides agency and employees responsibilities. Workers' compensation award amounts are determined by WCP and approved by the Workers' Compensation Commission. The amount is always less than employees' regular salary.

DHRM Workers' Compensation Supplement To make up the difference between the workers' compensation award and regular salary, eligible non-VSDP employees covered by the Virginia Personnel Act (VPA) are entitled to receive supplemental salary payments in accordance with DHRM Policy 4.60. Review this policy in detail prior to processing.

Supplemental salary payments (DHRM Supplement) are calculated as the difference between regular salary and the workers' compensation award. Such payments are only made post-award. Employees are eligible for the DHRM Supplement during the first 92 calendar days of compensable work-related absences. Agencies may extend this period by 480 work hours.

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Using Personal Leave to Augment Workers' Compensation

Once the eligibility period for the DHRM Supplement expires, employees can replace the earnings difference between the workers' compensation award and their regular salary by using available personal leave balances (annual, sick, compensatory, and/or overtime). When all personal leave is exhausted, employees receive only the workers' compensation award and are on Leave Without Pay (LWOP) status.

Synopsis of the Workers' Compensation Process

Employing agencies must report work-related injuries within 10 days of the injury to WCP who investigates and determines eligibility (some services are contracted out). The investigation, receipt of information, and eligibility determination may take 1-90 days. During the eligibility determination period, employees typically use personal leave in order to continue to be paid. Employees with no personal leave balances typically go into LWOP status. After the workers' compensation claim is deemed compensable, agencies may be required to process adjustments to pay, benefits, and leave including:

- Retroactive payroll adjustments to reclassify taxable regular payments made to the employee during the eligibility determination period into the appropriate taxable DHRM Supplement and nontaxable workers' compensation Special Pays. Or,
- Large one-time payments to employees in cases where employees went into a LWOP status during the eligibility determination period.

After eligibility determination, workers' compensation awards (i.e., agency reimbursements) are usually received on a timely basis, and agencies can categorize payments to the employee appropriately and timely. Once the employee is no longer entitled to the DHRM Supplement and has exhausted all personal leave balances, workers' compensation awards should be mailed directly from WCP to the employee. In order to assure no break in pay for the employee, two weeks prior to the date the employee is no longer entitled to the DHRM Supplement and has exhausted all leave, notice must be provided to WCP. At this point, agencies should perform a complete audit of the claim, ensuring all award related payments due the agency and employee have been received, paid, and accounted for properly.

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Payroll Summary

A summary of payroll, benefits, and leave processing required in conjunction with **compensable** worker's compensation claims follows:

Days	Payroll Processing/WCP Reimbursement Summary
Day 1-7	<ul style="list-style-type: none"> • Pay regular taxable salary. • Process benefits as normal. <p>Agencies are reimbursed only if claim extends beyond 21 days.</p>
Day 8 -92	<ul style="list-style-type: none"> • Pay workers' compensation amount – nontaxable. • Pay DHRM Supplement – taxable. • Process benefits as normal. <p>Agencies are reimbursed the amount of the workers' compensation award.</p>
Day 93 - forward	<ul style="list-style-type: none"> • Pay workers' compensation amount – nontaxable. • DHRM Supplement expires unless agency approves extension (see DHRM policy). Absent an extension, or after the extension expires, employees must use personal leave (if available) to augment the workers' compensation award up to their regular salary. • Pay regular taxable salary for personal leave used. • Process benefits as normal. <p>Agencies are reimbursed the amount of the workers' compensation award.</p>
After DHRM Supplement and Personal Leave Balances Expire	<ul style="list-style-type: none"> • Agency places employee on LWOP status. • Agency contacts WCP two weeks prior to anticipated LWOP date to have workers' compensation payments mailed directly to employee. • Benefit processing stops.

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Coordination with Payroll, Benefits, and Leave

Importance of Timely Processing and Communication

Processing payroll, benefits, and leave for employees affected by work-related absences can be among the most complex areas of payroll administration. This complicated process is frequently made more challenging by processing delays and/or poor communication, such as:

- Payroll and WCP are not notified timely of absences due to work-related injury.
- Workers' compensation eligibility determination is delayed either by the agency or WCP.
- Workers' compensation award payments to agencies are delayed.
- Payroll is not notified of awards timely.

Delays and poor communication nearly always affect employee take-home pay, resulting in incorrect classification of pay (i.e., taxable vs. nontaxable, regular pay vs. special pays), under or overpayments, and incorrect benefit deduction processing.

Fringe Benefit Eligibility

Employees retain eligibility for certain benefits during the period in which they receive workers' compensation awards as summarized below.

Benefits	WC with DHRM Supplement or Personal Leave Payments	Workers' Compensation Only
CIPPS Employee Status (H0BES)	1	2
Healthcare	Yes	Yes – BES only
Retirement & Health Credit	Yes	No
Group Life	Yes	Yes – VRS Form 1501

Deduction overrides may need to be entered (as outlined later in this Topic) in order to ensure accurate recording of certain benefits while the employee is receiving workers' compensation.

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Coordination with Payroll, Benefits, and Leave, Continued

Leave Processing

Absences from work for compensable workers' compensation claims should be tracked and charged in hours as workers' compensation leave based upon the employee's standard work day. Standard leave forms (i.e., L-1, L-2) or equivalent agency forms should be used to track workers' compensation leave on an hourly basis. See CAPP Topic 40206, *Establishing Leave Records*.

Absences for employees receiving the DHRM Supplement are also charged as workers' compensation leave. Employees whose absence extends beyond the period of time they are eligible for the DHRM Supplement may elect to use personal leave (i.e., annual, sick, compensatory) to augment their workers' compensation pay up to the amount needed to replace their regular salary. In this case, leave time (i.e., absence from work) is split between workers' compensation leave and personal leave in accordance with established agency policy.

WCP Award Payments

WCP Award Payments - Active Status

Workers' compensation award payments **must** be paid to employing agencies by WCP for employees on Active status. These payments are provided to agencies by WCP on a biweekly basis as reimbursement for workers' compensation award payments made by agencies to injured employees through payroll. Employees are on Active status during the period they are either receiving the DHRM Supplement or using personal leave balances to augment the award amount. The first seven days of absence for a compensable claim are not reimbursed to the agency unless the absence extends beyond 21 days.

Agencies are responsible for notifying WCP that the agency is to receive the payments during this period. Agencies should deposit the payment as a credit against the payroll expenditures in accordance with CAPP Topic 20205, *Deposits*.

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WCP Award Payments, Continued

WCP Award Payments - LWOP Status

WCP workers' compensation award payments are made directly to employees once employees are in on LWOP status. Employees are on LWOP status during the period of time they are not receiving pay for the DHRM Supplement or leave balances to augment the workers' compensation award.

The agency **must** notify WCP, in writing, at least 14 to 21 days prior to employees being placed in on LWOP. This notification helps to ensure checks are sent to the employee timely and prevents an assessment to the agency of a 20% penalty on late workers' compensation payments.

Agencies should review each workers' compensation case and reconcile payments to the employee with the workers' compensation reimbursements prior to notifying WCP. If overpayments or underpayments are identified, agencies must take the necessary actions to correct the inconsistency prior to releasing the case solely to WCP.

Agency Payroll Processing

Pre-award Absences – Key Internal Control

Agencies must carefully consider their actions during the period of time WCP investigates claims (pending status) in order to safeguard Commonwealth assets and minimize the possibility of collection problems. During this time, agencies should charge employee absences to personal leave or, if personal leave is not available, employee pay should be docked. If the claim is subsequently determined to be compensable, agencies would credit-back leave charged or provide back-pay for workers' compensation awards and DHRM Supplements to which employees become entitled following the award. If the claim is subsequently determined to be non-compensable, no adjustments are required. If agencies continue employees' normal pay, benefits, and leave processing during the eligibility determination period, the complexity and magnitude of post-award adjustments are greatly increased.

This same process applies in new unexpected periods of absence that the employee relates to their original injury. Prior to WCP authorizing coverage for new periods of disability, employees should use personal leave in order to continue pay.

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Agency Payroll Processing, Continued

CIPPS Pay Types

The following table provides key information regarding CIPPS workers' compensation pay types. CIPPS will automatically:

- not take taxes from Special Pay 002 no matter what coding appears in the TAX field on HUE01.
- charge Special Pays 002 and 063 to the correct object codes for workers' compensation and DHRM Supplement. The R1 record is overlaid for object code reporting.

See CAPP Topic 50515, *Special Pays*, for more information on entering data on HUE01 and HUC01.

	Workers' Comp	DHRM Supplement	Personal Leave
CIPPS Pay Type	002	063	Regular Pay
CIPPS Screen	HUE01	HUE01 or HUC01	HUA03
Court-ordered Deductions	No	Yes	Yes
Withhold Taxes	No	Yes	Yes
Object Code	1151	1152	1123

Biweekly to Semimonthly Conversion

Since WCP workers' compensation payments to agencies are made for biweekly periods, agencies must convert the biweekly award from WCP to a semimonthly amount as outlined in the following table. Before you begin, obtain the biweekly indemnity amount (from WCP), semimonthly salary, and the number of calendar days in the applicable semi-monthly pay period:

Step	Action
1	Divide the biweekly indemnity amount by 14 (i.e., calendar days in a biweekly period). This is the daily indemnity amount.
2	Multiply the daily indemnity amount by the number of calendar days in the semimonthly pay period. This is the semimonthly workers' compensation payment to the employee (Special Pay 002).
3	Subtract the semimonthly workers' compensation payment from the semimonthly salary. The results of step 2 and 3 should never total more than regular semimonthly salary. <ul style="list-style-type: none"> • If eligibility for the DHRM Supplement remains, this is the DHRM Supplement (Special Pay 063) payment to the employee. • If eligibility for the DHRM Supplement has expired but personal leave is available and charged, this amount is paid as regular salary.

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VRS Deductions – Deduction Overrides

Creditable Compensation, Insurance Base Pay and the corresponding contribution amounts reported to VRS during workers' compensation claims should equal the amount that would have been calculated on the employee's regular pay period salary. This cannot occur when using Special Pays 002 and 063 unless deduction overrides are processed. Deduction overrides allow agencies to override deductions for a particular employee on a pay period to pay period basis without changing the employee's masterfile record. If deduction overrides are not processed, adjustments to the affected deductions must be processed manually through a VRS-1501 and IAT.

Retirement deductions are calculated in CIPPS using different methods:

Deduction	Deduction Code	Calculation Method
Retiree Credit	015	Accumulated total of <u>Regular Pay</u> plus Special Pays 001, 002, 015, 061, 062, and 063 times the rate.
Retirement	016	
Buyback	017	
Pretax Buyback	043	Accumulated total of <u>Salary/Rate on HOBID</u> plus Special Pays 001, 002, 015, 061, 062, and 063 times the rate.
Group Insurance	020	
Long-term Disability	036	

Deduction Overrides

Deduction overrides cannot process in CIPPS without the presence of a regular pay (7XX) transaction. Use of HUC01 (Special Pay as Regular Pay) normally allows deduction overrides to process on special pays. However, Special Pay 002 (9XX) cannot be paid as a regular pay using HUC01. Therefore, if a payment of salary for leave hours is not processed along with the Special Pay 002 transaction, a time and attendance transaction for \$.01 must be entered on HUA03. Special Pay 063 can be processed on HUC01, thereby eliminating the need for a "penny" time and attendance transaction.

See CAPP Topic 50605, *Tax and Deduction Overrides*, for additional information on processing deduction overrides in CIPPS.

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Post-award Pay, Benefits and Leave Adjustments

As a practical matter, payroll must gather all the available facts and information for each case and compare the pay and benefits the employee received (or is receiving) with the pay and benefits the employee was (or is) entitled to receive. Differences in pay, benefits, or leave must be identified and corrected. Timely processing and good communication minimize the magnitude of these differences and the corresponding adjustments to correct payroll, benefits and/or leave records. However, the need for adjustments can never be completely eliminated.

For example, since eligibility determination may take up 90 days, employees must use personal leave to continue pay, or go on LWOP during this period. Once claims are deemed compensable, immediate retroactive adjustments are required. Similar adjustments are required for the first seven days of absence when the claim extends beyond 21 days. Agencies should provide employees with written verification documenting that personal leave balances were restored.

As outlined in the following table, the types of post-award adjustments needed for compensable claims varies depending on whether or not employees have personal leave balances available during the absence:

Pay/Benefit/Leave	With Leave	Without Leave
Regular Pay	Reduce	No adjustment
Special Pay 002	Increase by the amount of WC award.	Pay the amount of the WC award.
Special Pay 063	Increase by the difference between regular salary and the WC award.	Pay the difference between regular salary and the WC award.
VRS Retirement	No adjustment	Pay contribution through VRS form 1501 and IAT.
Personal Leave	Credit-back leave charged.	Credit for non-accrued leave (if appropriate).
Employee-paid Benefits	No adjustment	Process according to routine LWOP procedures.

Detailed procedures for processing refunds or adjustments to special payments are contained in CAPP Topics 50705, *Employee and Tax Masterfile Updates* and 50605, *Tax and Deduction Overrides*.

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Calendar Year End	<p>For purposes of closing the calendar payroll year and preparing W-2's for employees on workers' compensation leave, employee payments are on a <u>cash basis</u>. The date a payment is received from WCP is the day it is recorded. Therefore, a workers' compensation award payment received after the calendar year-end should not be reclassified to the prior calendar year unless:</p> <ul style="list-style-type: none"> the employee is separated from service at year-end and is not due any current year payments. the amount of the reimbursement for the prior year is greater than the amount that can be adjusted (i.e., amount paid or due in taxable earnings) in the current year. <p>In these cases a W-2C may be required.</p>
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Internal Control

Internal Control	<p>Agencies must establish and maintain consistent standards and procedures for the payment of workers' compensation awards and the calculation of related pay, fringe benefits, and leave. Agencies must verify that the information processed is complete, properly authorized, and entered accurately into the system. The technical accuracy of payroll actions made in CIPPS is a shared responsibility of the person who collects and processes the source documents and the agency fiscal manager who must oversee the payroll operation to ensure consistent application of internal control procedures.</p>
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Records Retention

Time Period The **Input Transaction Listing, Report 1001**, and the **Transaction Batch Balance Summary, Report 1005**, must be retained for 60 days. All other reports should be retained for five (5) years or until audited, whichever is later. Agency policy and procedures determine the retention of the related agency source documents/records. Please see CAPP Topic No. 21005, *Records Retention and Dispositions*.

Contacts

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Subject Cross References

References CAPP Topic No. 20205, *Deposits*.
CAPP Topic No. 21005, *Records Retention and Disposition*
CAPP Topic No. 40206, *Establishing Leave Records*
CAPP Topic No. 50515, *Special Payments*
CAPP Topic No. 50525, *Virginia Sickness and Disability Program*
CAPP Topic No. 50605, *Tax and Deduction Overrides*
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